GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1071
ANSWERED ON:24.11.2000
CLASSIFICATION AND VALUATION OF BANKS INVESTMENTS
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Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India has decided to issue new guidelines onclassification and valuation of banks` investments in corporate bonds and capital markets;

(b) if so. the details thereof;

(c) the time by which the new guidelines are likely to be issued: and

(d) the cone ete steps taken by the RBIfor development of the debt market in India in order to ensure greater flow of funds in the market?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL):

(a) to (c) Reserve Bank of India (RBI) has reported that it has issued revised guidelinesfor classification and valuation of investments by banks which have come into effect from the half year ended September 30, 2000. The highlights of these guidelines are given below:

(i) The banks are required to classify their entire investment portfolio as on September30, 2000, under three categories viz. `Held to Maturity`, `Available for Sale` and `Held for Trading`.

(ii) The investments under the `Available for Sale` category should be marked to marketat the year end or at more frequent intervals and individual scrips under `Held for Trading` categories should be valued at monthly or at more frequent intervals.

(iii) The investments under the `Held to Maturity` category need not be marked to marketas in the case of `Permament` securities at present.

(iv) Classification of investments, shifting of investments among the three categories, valuation of the investment, methodology for booking profit/ loss on sale of investments, should be in accordance with guidelines issued.

(v) The risk-weights assigned to the various securities at present, including those for `market risk`, would remain unchanged.

(vi) The investments in debentures/bonds are to be segregated into those which are deemed to be in the nature of an advance and those in the nature of investments for the purpose of classification and valuation appropriately.

(vii) The classification of the existing investments among the three categories may be done at the book value of the respective securities as on September 30, 2000.

(d) RBI has announced special liquidity support for dedicated gift funds. Banks have beenallowed to freely buy and sell Government securities on an outright basis and retail Government securities to non-bank clients without any restriction on the period between the sale and purchase.